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REVENUE FORECAST

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STATE OF SOUTH CAROLINA
BOARD OF ECONOMIC ADVISORS

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To: South Carolina Budget and Control Board
Subject: South Carolina Board of Economic Advisors' Revenue Forecast,
February 14, 1986

As prescribed by Section 11-9-880 of the South Carolina Code, the South Carolina Board of Economic Advisors submits its final forecast for Fiscal Year 1986-87. After much deliberation and thorough examination of economic activity and expectations since the January 1, 1986 forecast, the Board has determined that a slight upward adjustment in the forecast is warranted.

The Board of Economic Advisors still holds to its assumption made on January 1, 1986 that General Fund Revenue should increase in line with personal income at about 7 percent. The price level and real growth are expected to increase moderately. The final forecast for General Fund Revenue, however, has been increased \$11.0 million due to changes in tax policy as well as in increased growth.

The Board's forecast of General Fund Revenue for Fiscal Year 1985-86 is increased slightly by \$4.8 million. This adjustment is a result of increased Sales tax collections based on changes in administrative tax policy. The expected shortfall for this fiscal year has thereby been reduced to \$41.0 million but is still contingent on stronger growth in the last half of this Fiscal Year than experienced in the first half of the fiscal year.

TABLE I

GENERAL FUND REVENUES
Forecast 1985-86 and 1986-87
In Millions of Dollars

	ACTUAL 1984-85	REVISED 1985-86	REVISED 1986-87
TOTAL GENERAL FUND	2393.4	2556.2 (1)	2734.0 (1)
Total Regular Sources	2317.5	2514.8 (1)	2692.0 (1)
Sales Tax	828.3	889.8 *	956.0 **
Individual Income Tax	850.8	945.0	1030.0 (2)
Corporation Income Tax	192.2	210.0	216.0
All Other	446.3	470.0	490.0
Miscellaneous Sources	75.8	41.4	42.0
Education Improvement Fund		222.5 (3) *	239.0 (3) *
Interest on Education Improvement Fund		1.8	1.8
TOTAL		224.3	240.8

	<u>RATES OF CHANGE</u>	
TOTAL GENERAL FUND	6.8%	7.0%
Total Regular Sources	8.5	7.0
Sales Tax	7.4	7.4
Individual Income Tax	11.1	9.0
Corporation Income Tax	9.3	2.9
All Other	5.3	4.2
Miscellaneous Sources	-45.4	1.6
Education Improvement Fund		7.4
Interest on Education Improvement Fund		0.0
TOTAL		7.4

(1) Net of Education Improvement Fund.

(2) Net of -\$3.0 million impact from increase in retirees' income exemption from \$2,100 to \$3,000 for 1986.

(3) One-fifth of total sales tax.

* Access charge for long distance phone carriers has been in effect since 10/1/85. The tax is being challenged. Collections through January, 1986,

were included in reported results. Includes \$6.0 million for the balance of FY 1985-86 (February-June), and \$14.4 million in FY 1986-87 apportioned for Sales Tax and EIA Fund.

** Net of -\$7.0 million impact, apportioned for Sales Tax and EIA Fund, from elimination of Sales Tax on purchases made with food stamps beginning 10/1/86. A one-year extension request has been filed by State authorities.

Board of Economic Advisors
2/11/86

TABLE II

TOTAL GENERAL FUND REVENUES
 QUARTERLY ESTIMATES
 Fiscal Years 1985-86 and 1986-87
 (In Millions of Dollars)

	FY 1985-86 -----	FY 1986-87 -----
FIRST QUARTER	631.4	693.6
SECOND QUARTER	1,253.4	1,358.3
THIRD QUARTER	1,882.0	2,023.3
FOURTH QUARTER	2,556.2	2,734.0

PERCENT OF TOTAL REVENUES
 COLLECTION BY QUARTER

	FY 1985-86 -----	FY 1986-87 -----
FIRST QUARTER	24.7	25.4
SECOND QUARTER	24.3	24.3
THIRD QUARTER	24.6	24.3
FOURTH QUARTER	26.4	26.0

Board of Economic Advisors
 2/11/86

BRIEF OVERVIEW OF THE SCOPE MODEL

The SCOPE (South Carolina Operations Planning and Evaluation) Model was initiated in 1972 in the Office of Chief Economist (originally in the Governor's office and now in the Division of Research and Statistical Services). It was designed and operates as a policy and forecasting tool for top level executive, legislative and management decision making. SCOPE is an econometric model designed to reflect the South Carolina economy and to forecast the performance of major economic variables in the State, particularly tax revenues, employment and income. The model is based on a framework of economic activity. Approximately 85 exogenous national variables are currently taken from two leading national forecasting services (Data Resources, Inc., and Evans Economics, Inc.)

The SCOPE core model consists of 63 equations, of which 55 are stochastic* and 8 are identities. SCOPE attempts to reflect the diversity of the South Carolina economy by including 20 industrial sectors of manufacturing and nonmanufacturing employment, and a series of equations for wages, personal income, unemployment, taxable sales and State tax revenue.

Durable Manufacturing Employment

The durable manufacturing employment block consists of 6 stochastic equations for the major industries in the State as reported by the South Carolina Employment Security Commission. The employment equations for each separate industry are expressed as a function of a national consumption expenditure index appropriate for that particular industry, a national industrial production index corresponding to that industry and the national level of employment in that industry. The durable employment forecasts include the following industries: Lumber and Products, Stone, Clay and Glass, Fabricated Metal Products, Electrical and Nonelectrical Machinery, and Other Durables which includes Furniture and Fixtures, Instruments and Related Products.

Nondurable Manufacturing Employment

The nondurable manufacturing employment block consists of 7 stochastic equations for the major nondurable industries in the State. Like the durable block, the employment equation for each industry is expressed as a function of a national consumption index appropriate for that particular industry, a national industrial production index for that particular industry and the national level of employment in that industry. Employment forecasts are available for each of the following nondurable industries: Food and Kindred Products, Textile Mill Products, Apparel, Paper, Printing and Publishing, Chemicals, and Other Nondurables, such as Rubber and Miscellaneous Plastics Products.

* Stochastic is defined as a type of modeling for time series analysis explaining future probability from historical experience.

Nonmanufacturing Employment

The nonmanufacturing employment block is disaggregated into 7 stochastic equations: Construction, Transportation and Public Utilities, Services, Trade, Finance-Insurance-Real Estate, State and Local Government, and Federal Government. Employment growth in these industries is specified as functions of State population, national employment in these industries and national consumption indices.

Personal Income

The personal income block is composed of 2 stochastic equations, one equation for average hourly earnings and one equation for the unemployment rate, and 10 additional stochastic equations, one equation for each of the 10 major components of personal income as published by the Bureau of Economic Analysis, Department of Commerce. These equations are specified as functions of their respective national and State income and employment variables. In addition, equations are estimated for wage and salary disbursements for all major industries and are specified as functions of national wage trends and State employment levels.

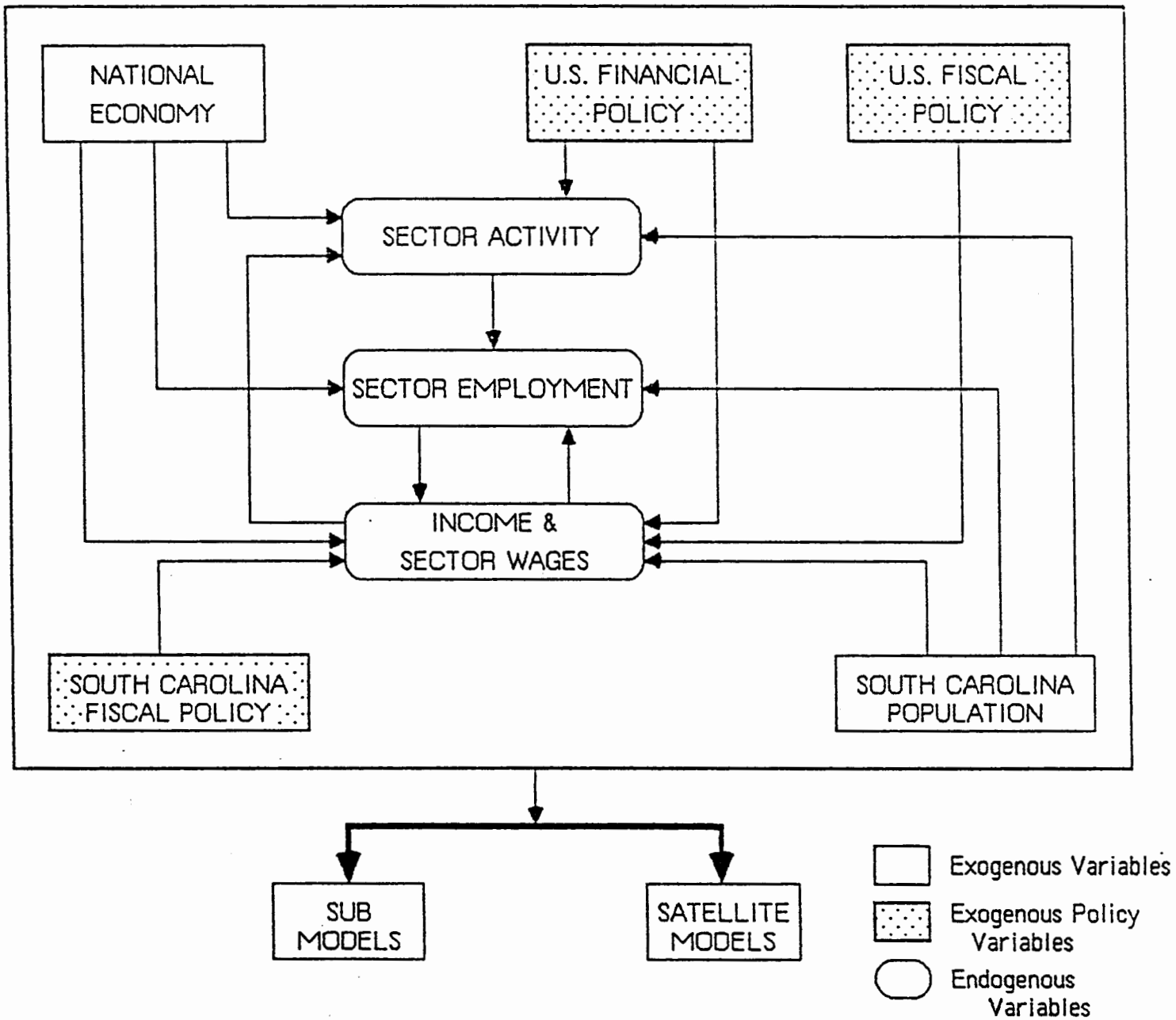
Revenues

The revenue section of the model emphasizes 4 major stochastic Regular Revenue Sources equations: 1) South Carolina corporate income tax, 2) South Carolina individual income taxes, 3) South Carolina retail sales, and 4) all other taxes. These equations are individually specified as functions of aggregate employment and income with their respective coefficients and constants. In addition, there are 2 stochastic equations for taxable sales and refunds.

Office of Chief Economist
2/14/86

SCOPE MODEL

SOUTH CAROLINA OPERATIONS, PLANNING & EVALUATION MODEL



In summary, General Fund Revenue are expected to increase 6.8 percent for the current fiscal year and 7.0 percent for Fiscal Year 1986-87. The attached tables reflect the new forecasts.

Board of Economic Advisors

J.A.M.

February 14, 1986